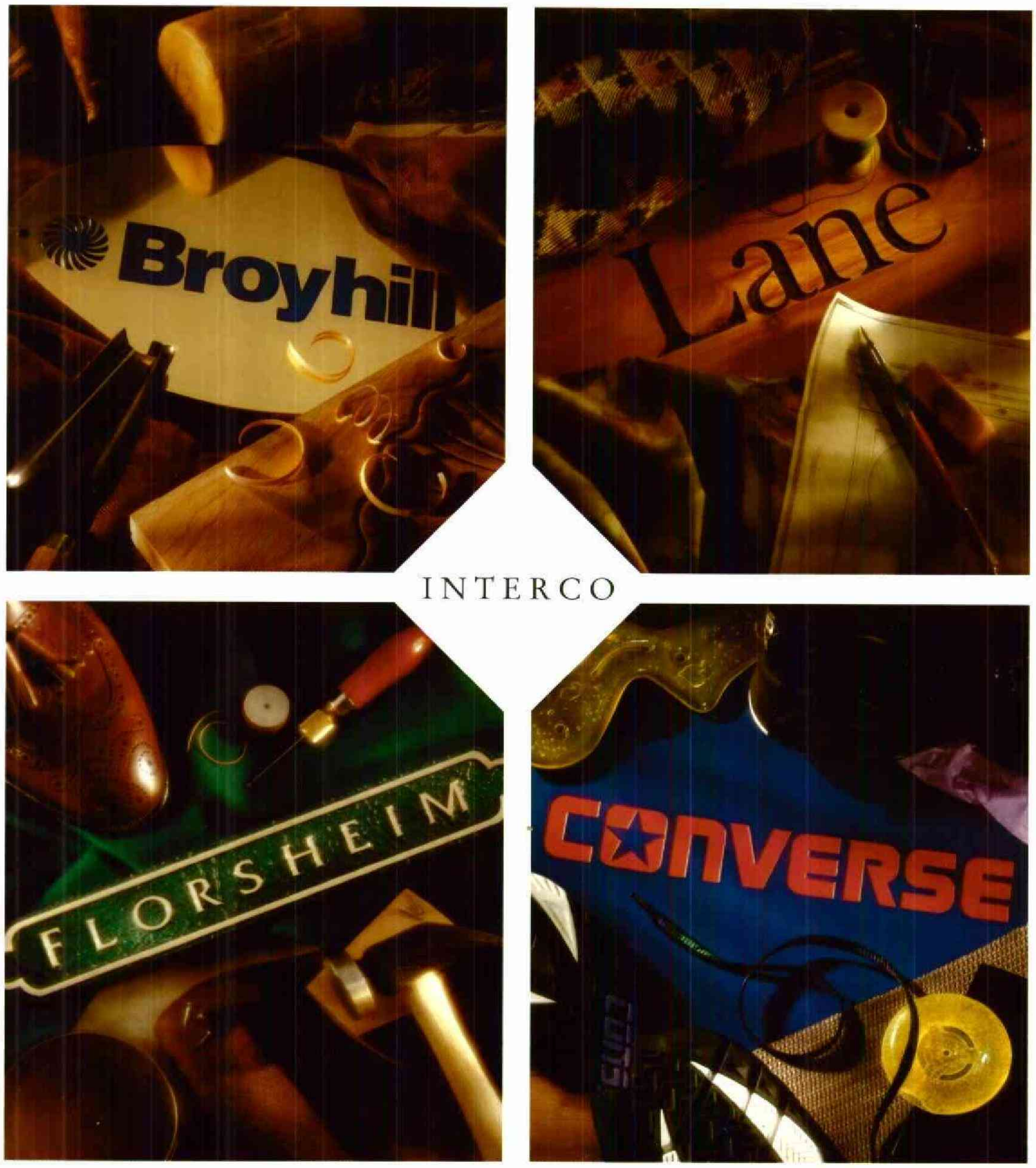
INTERCO CALENDAR 1993 ANNUAL REPORT



Building Our Brand Names

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INTERCO's strategy is to build long-term value upon the foundation of its well-known brand names – Broyhill, Lane, Florsheim and Converse. Each brand possesses the attributes – value, tradition, quality and innovation – that support strong market positions and provide outstanding prospects for growth.

The Furniture Group, comprised of Broyhill Furniture Industries and The Lane Company, is a major manufacturer and distributor of quality residential furniture and home furnishings. The group's 37 factories, distribution centers and consolidation warehouses are located mainly in the southeastern part of this country.

The Footwear Group, comprised of The Florsheim Shoe Company and Converse, styles, manufactures and distributes men's footwear and a broad range of athletic footwear in the United States and throughout the world as well. There are 10 factories and distribution centers in operation. The group also operates 379 retail shoe stores and outlets in the United States, as well as in Australia and Canada.

(In thousands, except per share, employee and statistical data)	YEAR ENDED DECEMBER 31, 1993
From operations:	
Net sales	$1,656,814
Net earnings	45,368
As a percent of net sales	2.7%
Per share of common stock —	
Net earnings	$0.88
Financial condition at year end:	
Working capital	$ 533,915
Current ratio	4.2 to 1
Total assets	1,205,679
Total long-term debt	586,109
Shareholders' equity	338,557
Book value per average common share — fully diluted	$6.59
Average common shares — fully diluted	51,397
Number of employees	20,045

In my comments to you in last year's report, I stated the Company's emphasis was being focused on growing our businesses and achieving improvement in our market shares as well as our profit percentages. Good progress was made in all of these areas in 1993 while, at the same time, we were able to exceed most of our financial plans as well.

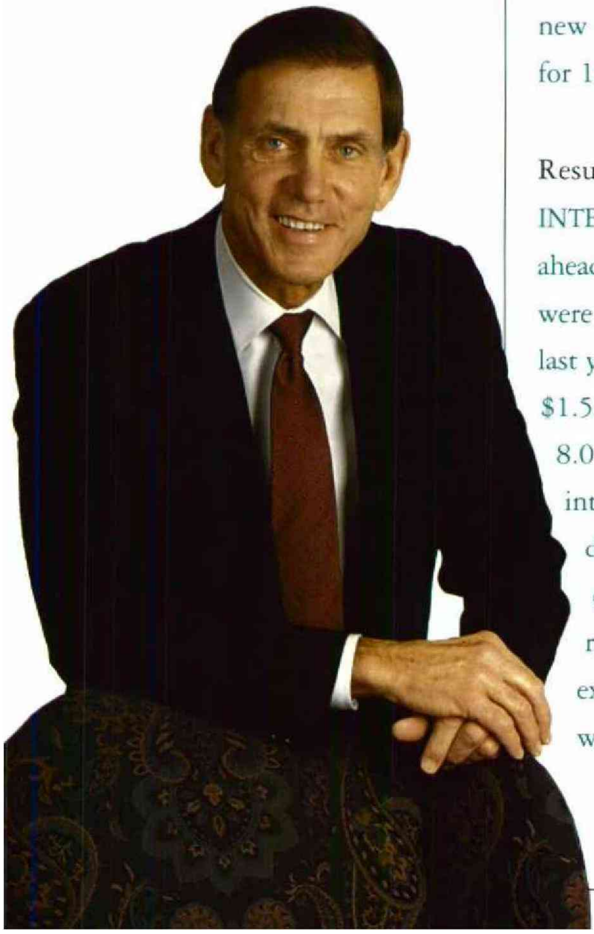
We were particularly encouraged by the success realized by our operating companies in the application of the Company's gross profit management philosophy, which is the cornerstone of our longer-range growth strategy. INTERCO's consolidated gross profit as a percent of sales improved approximately one-half percentage point during the year. The successful implementation of this management philosophy is essential in providing the funding necessary to support increased investments in advertising, product development and new facilities, all of which are needed to continue to build our well-known brand names.

The growth in sales and earnings in 1993 generated the cash to finance investments in working capital and fund a substantially increased capital expenditure program of approximately $44 million. This program included construction of a new 396,000 square-foot manufacturing facility for motion furniture in Tupelo, Mississippi, and the installation of a new state-of-the-art furniture finishing facility in Altavista, Virginia. During the latter half of 1993, we also commenced a project in Mission, Texas, to expand Converse's manufacturing capacity for All Star athleisure footwear by about 30 percent, reflecting the strong customer demand for these made-in-U.S.A. products.

Debt repayments of approximately $29 million were made, reducing total long-term debt to $586 million, while the market value of shareholders' equity grew by 40 percent from about $469 million to approximately $656 million.

Our new product releases were aggressively marketed this past

year. These included the Run 'N Slam and Aerojam performance basketball footwear by Converse, and the Ergo and Flexible models by Florsheim which broaden our appeal to young men seeking style and comfort. In the furniture segment, the Fontana and Candlewood collections by Broyhill have been well received by consumers as have new Lane offerings including the Raffles and Country Living collections, and a number of new recliner and motion products. We have an even broader selection of new introductions in process for 1994.



Results of Operations

INTERCO's sales and earnings were ahead of plan in 1993. Net sales were $1.66 billion, compared to last year's comparable results of $1.53 billion, an increase of 8.0 percent. Earnings before interest expense, income taxes, depreciation and amortization, other income and expense, reorganization items and extraordinary items ("EBITDA") were $168.7 million, compared to $129.8 million in last year's same period, an increase of 30.0 percent. Earnings per share, on a fully diluted basis, were $0.88.

Net sales of the furniture companies, Broyhill and Lane, totaled $980.5 million, an increase of 10.3 percent over last year's comparable period and a record for both companies. Furniture Group EBITDA was $121.7 million, a gain of 26.9 percent. This improved performance, also a record, was achieved by both operating companies. Incoming business trends remained positive at year-end with backlogs approximately 19 percent above year end 1992.

Net sales of the footwear companies, Florsheim and Converse, were $676.3 million in 1993, an increase of 4.8 percent over the prior year's comparable period. The sales increase was attributable to Converse's higher shipments of both performance basketball and athleisure footwear to domestic customers resulting from new product introductions and aggressive advertising and promotion programs. Florsheim's sales were below the prior year's level due to fewer price promotions in

1993 as well as nonrecurring sales a year ago from certain retail stores which were since closed. Footwear Group EBITDA was $61.2 million, an increase of 34.3 percent over the prior year. The EBITDA performance reflected solid gains at both Converse and Florsheim. Backlogs for this group at year end were approximately 16 percent above the same 1992 time period.

Corporate Affairs

We were pleased that, in recognition of the Company's financial progress, both Moody's and Standard & Poor's upgraded their ratings on our long-term debt during the past year. We are working diligently to achieve further increases in the future.

We were also encouraged with the successful secondary stock offering for approximately 3.1 million common shares which was completed this past July. This transaction resulted in an increase in the number of INTERCO common shares actively traded, thus providing additional liquidity in the market to the benefit of all our shareholders.

Conclusion

During 1994 we expect to be able to continue to increase market share in our businesses. We will do this by emphasizing our gross profit management programs — strong new-product introductions, innovative advertising, rapid expansion into markets outside the U.S.A., strong cost reduction and cost control efforts and continuing emphasis on building our internal organization to insure all of our employees enjoy, participate and take pride in the successful company we are building.

We thank you for the confidence you have placed in the INTERCO team. We recognize the responsibility to increase shareholder value; we are pleased with the progress during 1993 and look forward with enthusiasm to the challenge in 1994.

Sincerely,

R B Loynd

Richard B. Loynd
Chairman of the Board
and Chief Executive Officer

THE BUILDING BLOCKS OF GROSS PROFIT MANAGEMENT

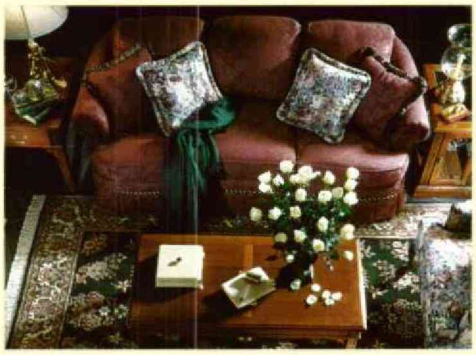
Sales
- New products
- New customers
- New markets
- Pricing analysis

Cost of Goods Sold
- Cost control
- Cost reduction
- Low profit product review
- Purchasing strategy
- Capital utilization
- People involvement
- Management accountability
- Contingency planning

Gross Profit

The second-largest manufacturer of residential furniture in the United States, INTERCO's two operating companies, Broyhill and Lane, combine strong brand names with extensive manufacturing, distributing and marketing capabilities.

Broyhill Furniture Industries, Inc. began operations in 1926 as The Lenoir Chair Company and became part of INTERCO in 1980. Its outstanding product quality, widespread brand recognition, and strong distribution capability make Broyhill a recognized leader in medium-priced bedroom, dining room, living room, upholstered and occasional furniture.

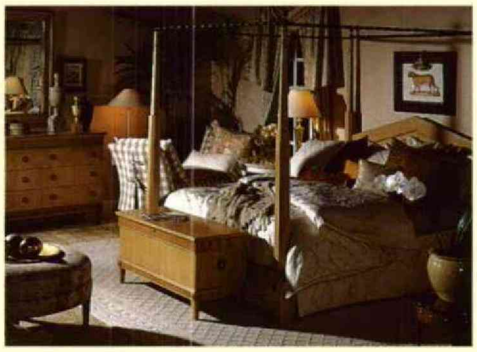


Broyhill Furniture Industries, Inc.

Broyhill was one of the first companies to introduce mass-production techniques to the furniture industry and is one of the lowest cost producers of furniture.

Broyhill's products are sold through about 3,400 retail furniture dealers. Broyhill's marketing efforts target dealers through its Showcase Gallery and Independent Dealer programs. Extensive consumer advertising emphasizes beautiful styling, complete home collections and outstanding value.

The Lane Company, Incorporated was founded in 1912 by E. H. Lane as a maker of cedar chests. Internal growth and acquisitions have made Lane one of the nation's largest manufacturers and distributors of medium- to high-priced furniture. The company became a part of INTERCO in 1987. Today, Lane's eight divisions offer a broad range of more than 3,000 items for home and office, including wood, metal, wicker and upholstered furniture, in addition to a complete line of reclining furniture. Its product mix is approximately 25 percent wood furniture and 75 percent upholstery.



The Lane Company, Incorporated

Lane's furniture products are distributed nationally to retail outlets, including department stores, leading chain stores, individual retail furniture stores and decorating studios. Lane also does extensive consumer advertising.

One of the largest manufacturers and retailers of footwear in the United States, each of INTERCO's well-known brands is among the leaders in its market segment — Florsheim men's quality dress and casual footwear, and Converse athletic footwear.

The Florsheim Shoe Company began operations in 1892 and became part of INTERCO in 1952. The Florsheim brand is recognized around the world for quality and value, with an estimated 20 percent share of the middle- to upper-priced men's quality dress and dress-casual footwear market in the United States. Florsheim products are distributed in the U.S. and internationally through approximately 5,000 independent dealer locations and 360 company-owned retail stores.

The Florsheim Shoe Company

Florsheim is highly focused as a manufacturer, wholesaler and retailer of men's quality footwear. Strengths include its valuable brand name, broad product line and extensive distribution structure.

Converse Inc., acquired by INTERCO in 1986, is the largest U.S. manufacturer of athletic footwear. The company manufactures and distributes a wide variety of products ranging from performance basketball shoes to trendsetting casual footwear. In addition, Converse holds a strong position as a provider of athletic footwear to professional, collegiate and high school athletes.

Converse Inc.

Building upon its success with its performance athletic shoes, Converse is targeting additional categories, such as cross training, tennis and running, for future growth. The fashion-oriented Converse Athleisure Collection, which includes the popular Chuck Taylor® All Star®, is expanding its product offerings to include new colors and fabrications as well as reissues of favorite Converse models from the past.

Broyhill®

The Fontana entertainment armoire can accommodate a 35-inch TV. It's an outstanding example of Broyhill craftsmanship, with finely carved overlays and molding, beveled panels and bun feet.

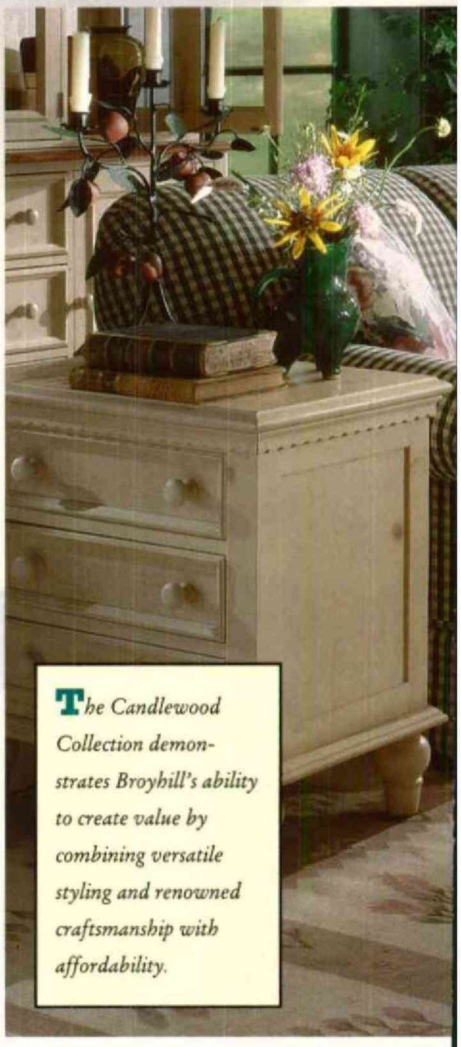
The Broyhill tradition began over 68 years ago when a North Carolina artisan hand-carved the pediment for the first Broyhill china cabinet. Today, more than 6,700 employees are dedicated to designing, manufacturing and delivering Broyhill furniture worldwide.

Quality and style, together with its status as a low-cost producer, have made Broyhill the leader of the medium-priced furniture market, uniquely positioned to deliver the style and value today's consumers demand.

Broyhill's emphasis on quality permeates every segment and function of the company, from product development to marketing. Underlying all quality activities is an ongoing investment in Broyhill people, to give them the tools and skills to succeed. A corporate officer is responsible for seeing the quality commitment is met, and the Consumer Assistance Center provides feedback from the more than 100,000 consumers who call each year.

Innovation is another integral part of the Broyhill culture. Whether it takes the form of the latest manufacturing technology or is reflected in consumer-driven marketing strategies, innovation is reinforcing Broyhill's status as one of the most recognized names in furniture.

A baker's rack and sideboard from the Creekside Collection illustrate Broyhill's attention to intricate design and functional flexibility. With the baker's rack removed, the sideboard can be used in the living room as a sofa table.



The Candlewood Collection demonstrates Broyhill's ability to create value by combining versatile styling and renowned craftsmanship with affordability.

Broyhill reaches targeted consumers through an extensive print campaign in home-oriented publications and national promotions that provide decorating ideas — and direct consumers to Broyhill retailers.

Discriminating consumers find the handcraftsmanship of bench-made construction and meticulous fabric pattern matching in timeless, classic and contemporary styles by Broyhill's Highland House division.

An upholstery fabric to meet each consumer's personal style — Broyhill's extensive selection has the range and versatility to bring plush comfort and timeless beauty to every interior.

The Premier Division offers the Directions Collection for casual living. Constructed of pine solids and veneers, Directions' look is inviting and comfortable.

Broyhill's finely crafted reclining upholstery — top-rated among consumers for comfort, quality and movement — is a stylish addition to any interior, combining the comfort of a recliner and the stylish good looks of a sofa.

Lane®

Since the early 1920s, when the first Lane cedar chest ad appeared in the *Saturday Evening Post*, The Lane Company has consistently advertised in national media. This long-term commitment to building the brand has created outstanding brand awareness, earning Lane a place in David Cleary's book as one of 34 "Great American Brands."

Lane's reputation for outstanding quality and design was recognized last year with Hickory Chair's selection as the licensee for furniture reproductions from Mount Vernon. Toward the end of 1993, Lane positioned itself for future growth with the installation of an $8 million state-of-the-art finishing system that will produce excellent product quality at attractive prices not previously available to the consumer. Also, the Action Division completed construction of a 396,000 square-foot, $10 million manufacturing facility to meet the rapidly increasing demand for its motion upholstery.

Lane's divisions include: Action Industries, recliners and motion upholstery; Royal Development Company, recliner mechanisms; Hickory Chair Company, 18th Century and designer wood and upholstered furniture; Hickory Business Furniture, wood and upholstered business furniture; The Pearson Company, custom-tailored upholstered furniture; Venture, wicker and rattan furniture; Lane Division, cedar chests, occasional tables, dining and bedroom furniture and accents; and Lane Upholstery, contemporary and traditional upholstered furniture.

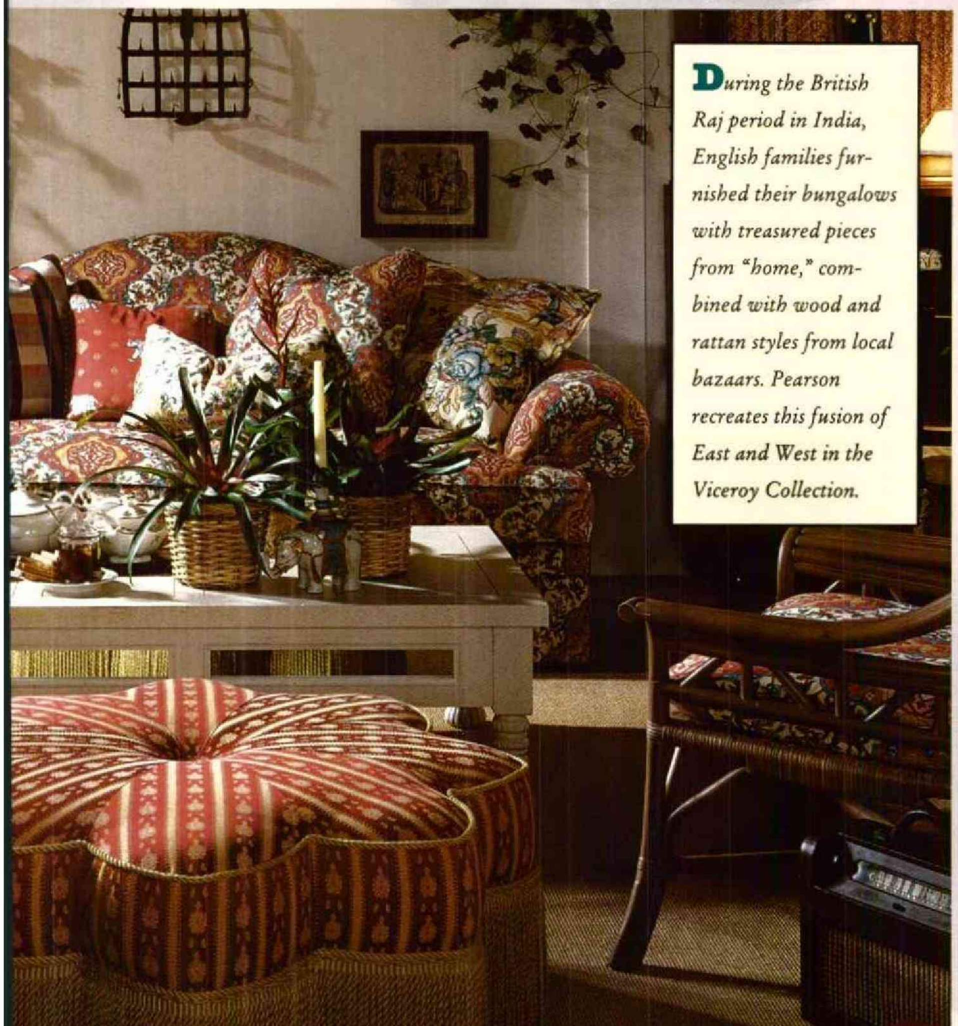
Action recliners combine a smooth, quiet patented mechanism with slim profile styling suitable for any room in any home. Action Industries is the nation's second-largest recliner manufacturer.

Venture's WeatherMaster all-natural indoor/outdoor wicker furniture features a unique finish that protects the wicker from the elements and patented cushions that drain so seats dry quickly.

During 1993, Lane advertised in 24 national publications and created a total of more than 368 million impressions. This ad is the first of a series for a new group of high-style recliners introduced by Lane's Action Division.

MotionMates is a group of occasional pieces designed by the Lane Division to complement all of today's motion upholstery, as well as conventional upholstered furniture.

Category volumes have increased dramatically since Action entered the high-growth motion furniture field in the fall of 1990.



During the British Raj period in India, English families furnished their bungalows with treasured pieces from "home," combined with wood and rattan styles from local bazaars. Pearson recreates this fusion of East and West in the Viceroy Collection.

This reproduction of the secretary created for George Washington in 1796 by Philadelphia cabinetmaker John Aitken is one of 33 pieces in Hickory Chair's Mount Vernon Collection, first offered in 1993.

Innovative marketing ideas keep Lane cedar chests in front. An example is the line of functional and affordable cedar-lined chests developed in conjunction with Country Living *magazine. Each is an adaptation of an American antique chest.*

FLORSHEIM®

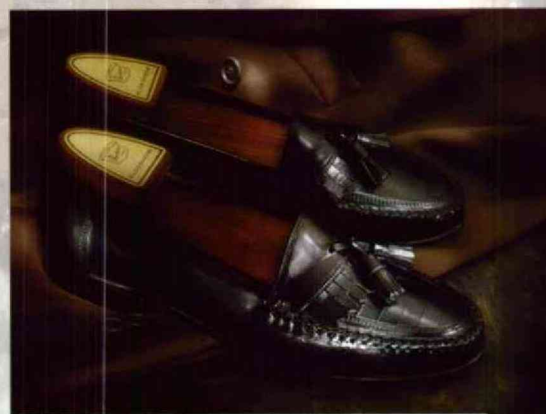
Florsheim has been a pioneer in creating comfort footwear that looks as good as it feels. Recent product line expansions include new looks like the Comfortech™ Flexible (right) and new technology such as in the ergonomic design of the Ergo (middle).

Affordable quality, classic and contemporary styling and innovative product lines have made Florsheim the leading brand of men's non-athletic footwear.

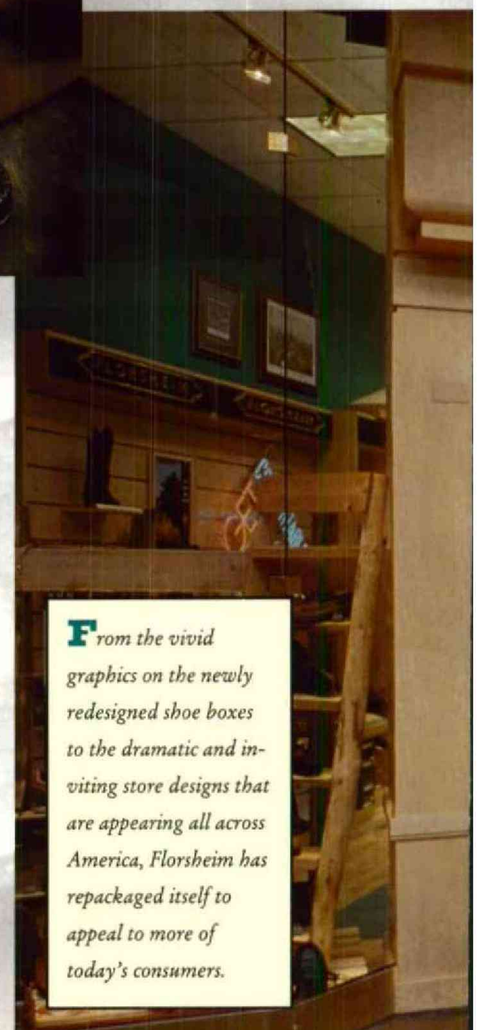
The Florsheim brand has been synonymous with high quality men's footwear throughout its 101-year history. Florsheim has achieved that status by pairing its traditional quality and value with new styles and innovative design, supported by consistent advertising and promotional programs. The brand-building continues, as new products, supported by increased advertising, are planned to produce market share gains in both dress and casual shoes and are positioned to attract a new generation of consumers to Florsheim.

Understanding and responding to consumer demands for quality dress and casual footwear that fits contemporary lifestyles is key to the success of the Florsheim brand. With consumers increasingly demanding comfort, Florsheim Comfortech offers a range of shoes that not only feel great, but offer exceptional styling and affordable prices. And to address the trend to a more casual work environment, the Florsheim product line now includes a complete selection of casual looks.

In 1993, Florsheim completed the last steps of a multi-year restructuring program which has already produced improved profits and profit margins.

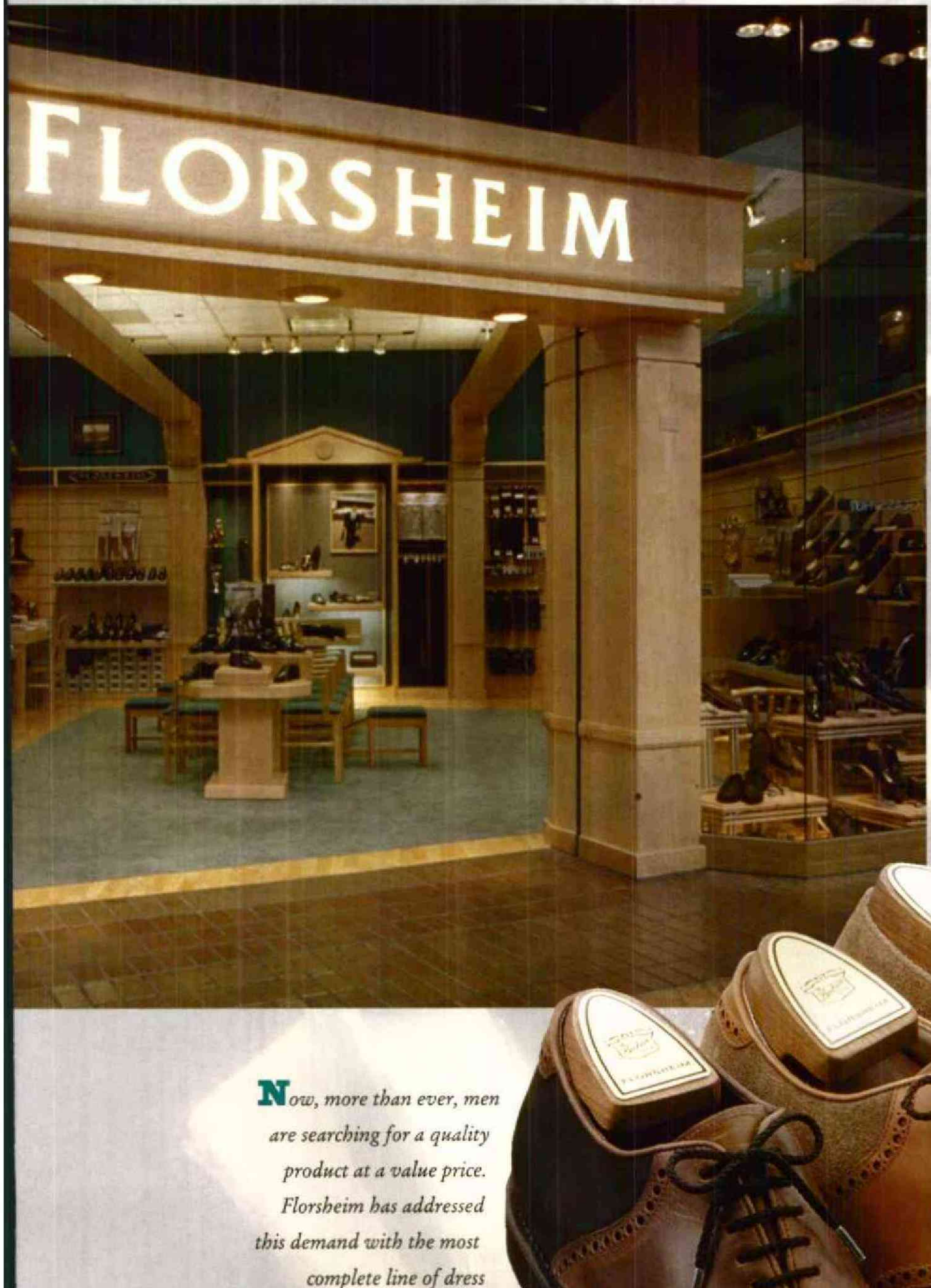


With over one hundred styles introduced each season, Florsheim offers the broadest line of footwear available, from Italian-influenced loafers to the classic American wing tip, dusty bucs to walking shoes.



From the vivid graphics on the newly redesigned shoe boxes to the dramatic and inviting store designs that are appearing all across America, Florsheim has repackaged itself to appeal to more of today's consumers.

The big news in comfort technology today is Florsheim's exclusive Flor-flex® construction — a dress shoe comfort system so revolutionary it's protected by patent.



Waterproof, Thinsulate™-lined, padded collar, Achilles notch, speed lace…the features outdoor enthusiasts want…are loaded into these Florsheim Outdoorsman hiking boots.

Combine the oldest, most respected name in men's footwear with the freshest advertising, run the ads in major publications and you get the largest market share — and three times the brand awareness — of any men's non-athletic footwear company.

Now, more than ever, men are searching for a quality product at a value price. Florsheim has addressed this demand with the most complete line of dress and casual value shoes in the market.

CONVERSE®

Converse® continued to strengthen its position in the athletic footwear industry in 1993 with innovative products and effective marketing strategies. The company's growth was driven by a substantial increase in basketball footwear, as both new and traditional products, supported by attention-grabbing media, made significant gains.

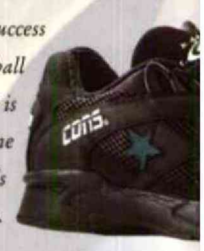
Product innovation included the Run 'N Slam™, a basketball shoe designed to perform like a running shoe, and advances in REACT™ technology. Athleisure footwear sales were also spurred by the strong demand for Chuck Taylor® All Star® products.

Television advertising reinforced the company's position as a major contender in both performance and casual arenas. Larry Johnson dunked his way into homes all over the world in the guise of his well-known "Grandmama™" persona, while Kevin Johnson proved his quickness on the court as the singing group "En Vogue" sang his praises. A recent addition to our athletic endorsers, Isaiah "J. R." Rider, the NBA's "Slam Dunk" champion, will be endorsing a new cross training line in 1994.

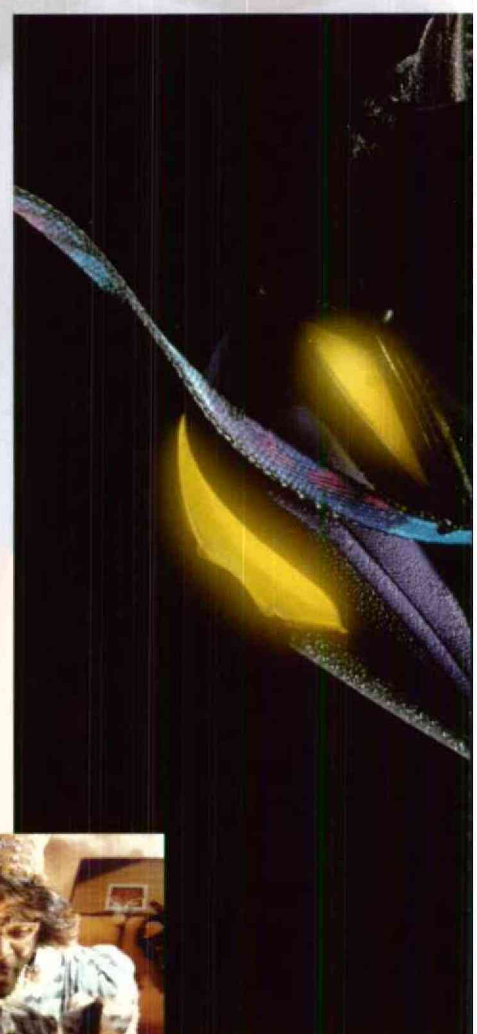
Cutting-edge commercials for the All Star® reached out to the counter-culture cravings of Generation X-ers, who proved that America's first basketball sneaker — the All Star® which was introduced in 1917 — will always have a place in fashionable closets.

As the official shoe of the National Basketball Association, Converse has built-in credibility with basketball fans all over the world.

NBA IS A REGISTERED TRADEMARK OF THE NATIONAL BASKETBALL ASSOCIATION

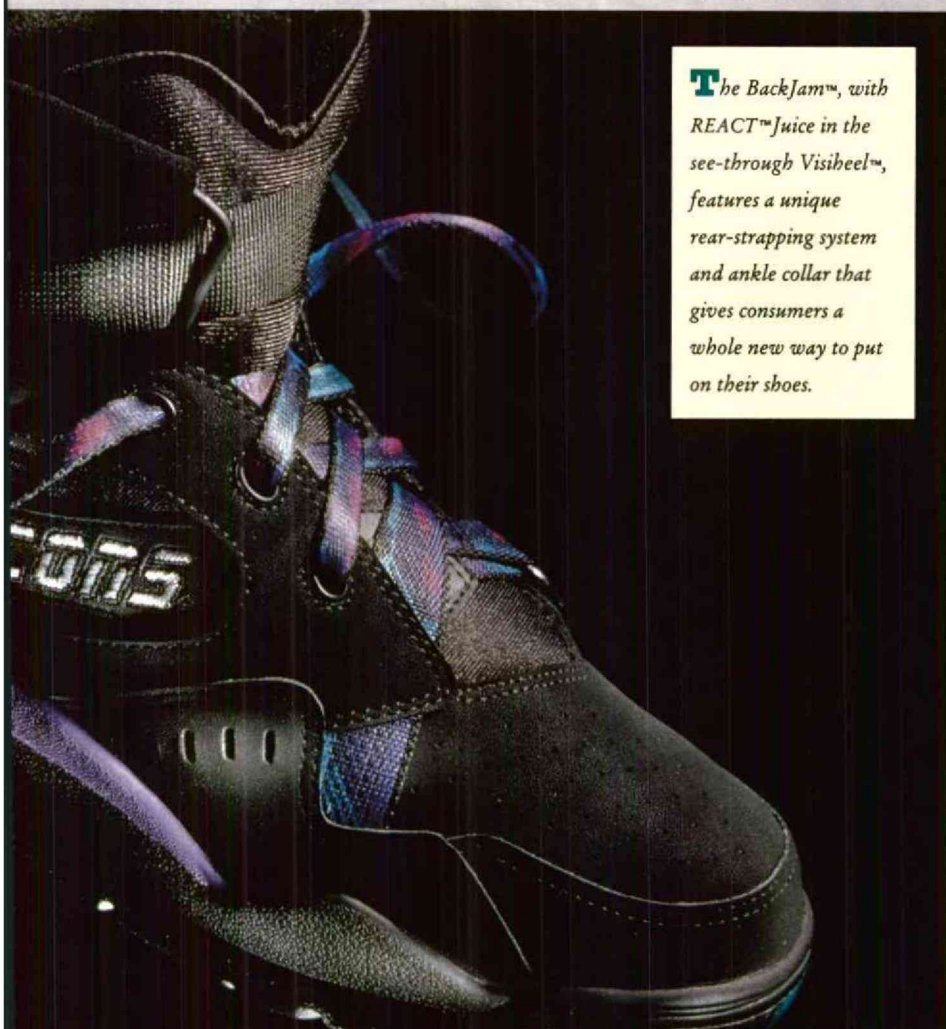


Building upon the success of its performance basketball products, Converse® is launching a cross training line to meet the performance needs of the multisport athlete.



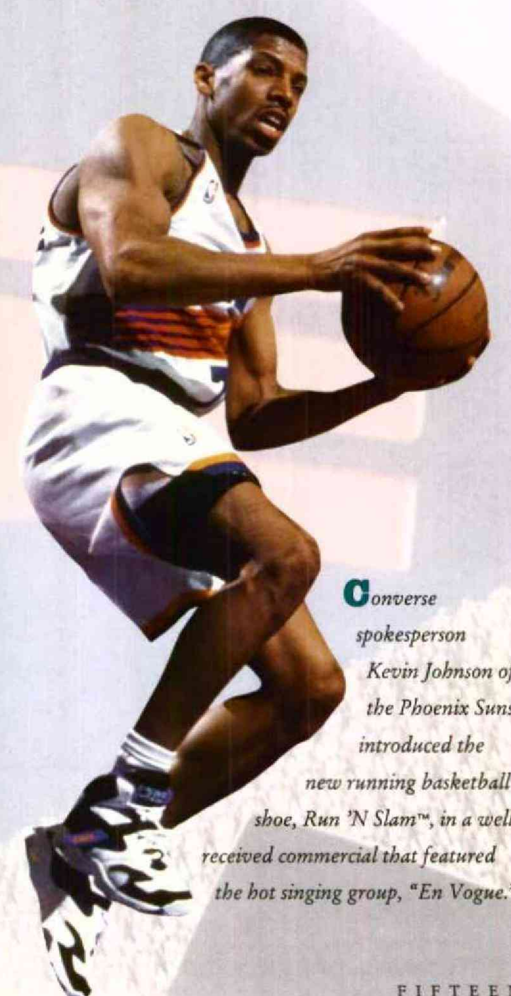
Converse reaches even the tiniest consumers with its expanded Children's Collections. Providing little shoes to little feet, the Converse Small Star® earned Converse a 53 percent increase in this category.

Larry "Grandmama™" Johnson continues to delight television viewers...and sell lots of basketball shoes. His seventh Converse TV commercial was rated in the top 10 and placed "Grandmama™" before the millions of sports fans who watched the Super Bowl.



The BackJam™, with REACT™Juice in the see-through Visiheel™, features a unique rear-strapping system and ankle collar that gives consumers a whole new way to put on their shoes.

The Converse Chuck Taylor® All Star®, long one of America's best-loved basketball shoes, has become one of the hottest fashion items to hit the streets and was chosen by Footwear News *as one of its shoes of the year for 1993.*



An entirely new category of athletic footwear — running basketball — was launched when Converse debuted its Run 'N Slam™ basketball shoe. Converse sold more than two million pairs of these shoes in 1993. This shoe was a virtual sellout for retailers in the back-to-school market.

Converse spokesperson Kevin Johnson of the Phoenix Suns introduced the new running basketball shoe, Run 'N Slam™, in a well-received commercial that featured the hot singing group, "En Vogue."

FINANCIAL REVIEW

Results of Operations

INTERCO INCORPORATED (the "Company") is a major manufacturer of residential furniture and one of the leading manufacturers and retailers of footwear through two operating segments. The furniture segment consists of Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated and the footwear segment consists of The Florsheim Shoe Company and Converse Inc.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). On June 26, 1992, the Court approved and confirmed the Amended Joint Plan of Reorganization of the Company (the "Plan") and the order was docketed on June 30, 1992. The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The distribution record date for determining those creditors to whom distributions were made was June 30, 1992. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

As of August 2, 1992, in accordance with the AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements for the five months ended August 2, 1992. Accordingly, a vertical black line is shown to separate post-emergence operations from those prior to August 3, 1992 in the consolidated financial statements since they have not been prepared on a comparable basis.

Effective December 31, 1992, the Company changed its fiscal year end to December 31. For purposes of this discussion, calendar 1993 refers to the 12 month period ended December 31, 1993, calendar 1992 refers to the two five month periods ended December 31, 1992 and August 2, 1992, and fiscal 1992 refers to the 12 month period ended February 29, 1992.

Net Sales

Net sales of the operating companies, by segment, for the last three years were as follows:

(In millions)		CALENDAR 1992		
	CALENDAR 1993 YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	FISCAL 1992 YEAR ENDED FEBRUARY 29, 1992
Furniture segment	$ 980.5	$394.9	$356.7	$ 819.3
Footwear segment	676.3	267.4	246.9	652.4
	$1,656.8	$662.3	$603.6	$1,471.7

Furniture segment sales for calendar 1993 were $980.5 million, representing an increase of 10.3% over the comparable (12 month) period last year. Furniture segment sales increased 10.2% in calendar 1992 (ten month period) over the same period in the prior year, while fiscal 1992 sales increased 4.2%. Broyhill and Lane each realized sales increases in calendar 1993. New product offerings and marketing programs at both furniture companies continued to be well received with order levels for incoming business reflecting an improving U.S. economy and favorable industry conditions.

For calendar 1993, footwear segment sales were $676.3 million representing an increase of 4.8% over the comparable period a year ago. Footwear segment sales in calendar 1992 (ten month period) decreased 1.4% from the same period in the prior year, while fiscal 1992 sales were about even with those reported in the previous year. The sales increase in calendar 1993 occurred at Converse and was attributable to higher shipments of performance basketball, athleisure (canvas) and children's footwear to primarily domestic customers, resulting from new product introductions and aggressive advertising and promotion programs. Florsheim's calendar 1993 sales were down from the comparable prior year period due to fewer price promotions in the current year and nonrecurring sales last year from retail stores since closed. For calendar 1992, Florsheim's sales declined due to the disposal of its retail business in Mexico and its Bowen Shoe operation and the closing of a number of retail stores during the year. Converse's sales increased during calendar 1992, helped by expanded advertising and promotion programs. For fiscal 1992, Converse's sales increased; however, Florsheim's sales were impacted by the dispositions noted previously.

Earnings (EBITDA)

Upon emergence from Chapter 11, the Company was required to adopt fresh-start reporting which resulted in the revaluation of all assets and liabilities to reflect the Company's estimated reorganization value. As a result, gross profits and operating earnings subsequent to August 2, 1992 are not comparable with those of prior periods. However, earnings before interest expense, income taxes, depreciation and amortization, and other income and expense ("EBITDA") are comparable on both a segment and consolidated basis; consequently, the following management discussion and analysis of profitability begins at that point.

(In millions)		CALENDAR 1992		
	CALENDAR 1993 YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	FISCAL 1992 YEAR ENDED FEBRUARY 29, 1992
Earnings before interest expense, income taxes, depreciation and amortization, and other income and expense:				
Furniture segment	$121.7	$ 49.3	$ 34.1	$ 88.4
Footwear segment	61.2	23.8	11.8	41.7
	182.9	73.1	45.9	130.1
Corporate administration	(9.7)	(3.6)	(3.8)	(8.6)
Miscellaneous expenses	(4.5)	(0.9)	(2.3)	(2.3)
	168.7	68.6	39.8	119.2
Depreciation and amortization	(36.2)	(13.7)	(13.2)	(32.2)
Earnings from operations	$132.5	$ 54.9	$ 26.6	$ 87.0

EBITDA of the combined operating segments for calendar 1993 was 11.0% of net sales, as compared to 9.2% for the comparable (12 month) period last year. Furniture segment EBITDA for calendar 1993 was 12.4% of net sales versus 10.8% in the comparable prior year. The improved EBITDA performance for the period reflected favorable factory utilization and sales of higher margin products resulting from the furniture companies' internal profit improvement programs. As a percent of net sales, footwear segment EBITDA for calendar 1993 increased to 9.0%, compared to 7.1% last year. The improved EBITDA performance reflected strong sales of higher margin products, particularly at Converse, less closeout merchandise requiring price promotion at both companies, the closing of unprofitable retail stores by Florsheim and increased royalty income.

For calendar 1992 (ten month period), EBITDA of the combined operating segments was 9.4% of net sales, as compared to 8.9% for the prior year comparable period. Furniture segment EBITDA for the ten months ended December 31, 1992 was 11.1% of net sales, equal to the same period in the prior year. As a percent of net sales, footwear segment EBITDA for calendar 1992 (ten month period) increased to 6.9%, compared to 6.1% in the previous year. The improved EBITDA performance reflected the sale of higher margin products, reduced closeout merchandise, the closing of unprofitable retail stores and increased royalty income.

Fiscal 1992 EBITDA of the combined operating segments was 8.8% of net sales, as compared to 7.7% in fiscal 1991. Furniture segment EBITDA decreased to 10.8% of net sales, compared to 11.6% for the same period in the prior year, due primarily to product mix and underutilization of manufacturing facilities. Footwear segment EBITDA, as a percent of net sales, increased to 6.4%, compared to 3.0% in fiscal 1991. The improved EBITDA performance resulted from benefits achieved from Converse's fiscal 1991 restructuring program. Florsheim's fiscal 1992 operating margins were down due to its restructuring program and disappointing retail traffic levels.

Miscellaneous expenses for calendar 1993 included nonrecurring costs primarily associated with the Company's settlement of certain litigation as well as legal and accounting fees related to debt and equity securities' registrations completed during the year.

Interest Expense

Interest expense for calendar 1993 totaled $56.5 million. As of August 3, 1992, the Company, in connection with its emergence from Chapter 11 and pursuant to the Plan, issued long-term debt (along with cash, common stock and warrants to purchase common stock) to settle pre-petition liabilities. As a result, interest expense for calendar 1993 was based on the Company's post-emergence debt structure and, therefore, is not comparable to the same periods of the prior year.

Interest expense for the five months ended December 31, 1992, which totaled $24.0 million, was also based on the Company's post-emergence debt structure whereas interest expense for the five months ended August 2, 1992, which totaled $36.9 million, was based on the Company's former (pre-emergence) debt structure.

Fiscal 1992 interest expense totaled $106.2 million which decreased from the prior year due primarily to the Company stopping interest accruals on its debt obligations considered unsecured as of January 24, 1991.

Other Income (Expense), Net

Other income (expense), net for calendar 1993 totaled $(0.1) million compared to $4.9 million for the ten months ended December 31, 1992 and $2.0 million for fiscal 1992. Other income (expense), net for calendar 1993 consisted of interest income on short-term investments of $1.0 million and other miscellaneous income and (expense) items totaling $(1.1) million.

Reorganization Items

Reorganization items consist of: adjustments to record assets and liabilities at fair value in connection with the Company's implementation of fresh-start reporting; and income, expenses and other costs directly related to the reorganization of the Company from the Chapter 11 filing date to its emergence from bankruptcy effective August 3, 1992. Additional information is presented in Note 3 of the Notes to Consolidated Financial Statements.

Income Tax Expense (Benefit)

For calendar 1993, the Company provided for income taxes totaling $30.6 million on earnings before income tax expense totaling $76.0 million, producing an effective tax rate of 40.3%. The effective tax rate was adversely impacted by certain nondeductible expenses incurred, provisions for state, local and foreign taxes and an increase in the Federal income tax rate, partially offset by certain deductible expenses provided for in the prior year.

The effective tax rates for calendar 1992 and fiscal 1992 were each adversely impacted by certain nondeductible expenses incurred, including a substantial portion of the expenses relating to the reorganization items, and provisions for state, local and foreign taxes.

Extraordinary Item — Gain on Extinguishment of Debt

Pursuant to the Plan, on the effective date (August 3, 1992) the Company distributed cash, debt securities, common stock and warrants to purchase common stock in settlement of its pre-petition liabilities. The book value of cash and securities distributed was approximately $1.1 billion less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item.

Cumulative Effect of Accounting Changes

In connection with the adoption of fresh-start reporting, the Company was required to adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of August 2, 1992. The Company recognized the full amount of the initial liability upon adoption of SFAS No. 106. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992 was a charge of $23.6 million, net of income taxes of $13.2 million. In addition, the Company was required to adopt SFAS No. 109, "Accounting for Income Taxes", as of August 2, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992 was a charge of $1.9 million.

Net Earnings (Loss) Per Common Share

Net earnings per common share on a primary and fully diluted basis were $0.88 for calendar 1993. Pursuant to the Plan, the Company cancelled all outstanding equity securities effective with the beginning of business on August 3, 1992 and issued new common stock. Accordingly, net earnings (loss) per common share for periods prior to August 3, 1992 are not comparable.

Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for calendar 1993 were 51,375,000 and 51,397,000, respectively.

Financial Condition

Working Capital

Cash and cash equivalents at December 31, 1993 totaled $45.3 million, compared to $68.0 million at December 31, 1992. For calendar 1993, net cash provided by operating activities totaled $49.6 million. Net cash used by investing activities totaled $43.2 million, including $43.9 million of capital expenditures incurred by the operating companies to add, upgrade or replace property, plant and equipment. Net cash used by financing activities during calendar 1993 totaled $29.1 million, substantially all of which pertained to payments made on long-term debt.

Working capital was $533.9 million at December 31, 1993, compared to $503.9 million at December 31, 1992. The current ratio was 4.2 to 1 at December 31, 1993, compared to 3.9 to 1 at December 31, 1992. The increase in working capital between years is a result of the growth incurred by each operating segment as demonstrated by the improved sales and earnings performance described previously.

Financing Arrangements

At December 31, 1993, long-term debt, including current maturities, totaled $586.1 million, compared to $615.3 million at December 31, 1992. The reduction in long-term debt, totaling $29.2 million, was a result of scheduled debt payments made by the Company, including $23.2 million in excess cash flow debt payments pertaining to calendar 1992 results of operations. As a result, the Company's debt-to-capitalization ratio improved to 63.4% at December 31, 1993, compared to 67.7% at December 31, 1992.

To meet short-term working capital and other financial requirements, the Company maintains a $135 million working capital facility with a group of banks. The working capital facility allows for both issuance of letters of credit and cash borrowings. Letter of credit issuances are limited to no more than $100 million; cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. Maximum availability under the facility is determined by the amount of eligible accounts receivable and inventory at each month end (referred to in aggregate as a "borrowing base"). As of December 31, 1993, the Company's borrowing base pertaining to the facility totaled $266.3 million. On January 31, 1994, the Company and its bank group executed an amendment to the working capital facility which increases the maximum availability to $140 million, reduces the cash borrowing interest rates, letter of credit fees and certain administrative costs, and extends the term to February 3, 1997. See Note 7 of the Notes to Consolidated Financial Statements for additional information.

At December 31, 1993, there were no cash borrowings outstanding under the working capital facility; however, there were $65.2 million in letters of credit outstanding.

The Company believes its working capital facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

(Dollars in thousands)	DECEMBER 31, 1993	DECEMBER 31, 1992
Assets		
Current assets:		
Cash and cash equivalents	$ 45,286	$ 68,055
Receivables, less allowances of $7,208 ($7,342 at December 31, 1992)	277,691	262,595
Inventories (Note 6)	341,808	313,079
Prepaid expenses and other current assets	36,159	35,629
Total current assets	700,944	679,358
Property, plant and equipment:		
Land	11,951	11,586
Buildings and improvements	122,530	105,652
Machinery and equipment	120,517	95,232
	254,998	212,470
Less accumulated depreciation	38,697	10,185
Net property, plant and equipment	216,301	202,285
Reorganization value in excess of amounts allocable to identifiable assets, net (Note 2)	97,107	102,333
Trademarks and trade names, net (Note 2)	153,248	157,218
Other assets	38,079	36,343
	$1,205,679	$1,177,537
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt (Note 8)	$ 9,305	$ 29,289
Accounts payable	77,413	63,371
Accrued employee compensation	22,059	19,501
Accrued interest expense	4,731	4,903
Other accrued expenses	40,438	49,948
Income taxes payable	13,083	8,471
Total current liabilities	167,029	175,483
Long-term debt, less current maturities (Note 8)	576,804	585,968
Other long-term liabilities	123,289	122,972
Shareholders' Equity:		
Preferred stock, authorized 10,000,000 shares, no par value — issued, none (Note 9)	—	—
Common stock, authorized 100,000,000 shares, $1.00 stated value — issued 50,004,282 and 50,000,000 shares at December 31, 1993 and 1992 (Note 10)	50,004	50,000
Paid-in capital	226,391	225,400
Retained earnings	62,162	17,714
Total shareholders' equity	338,557	293,114
	$1,205,679	$1,177,537

See accompanying notes to consolidated financial statements.

(Dollars in thousands except per share data)	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Net sales	$1,656,814	$662,274	$ 603,573	$1,471,745
Cost of sales	1,114,867	442,646	415,030	998,354
Gross profit	541,947	219,628	188,543	473,391
Selling, general and administrative expenses	421,372	169,791	165,514	394,138
Royalty income	11,946	5,104	3,557	7,752
Earnings from operations	132,521	54,941	26,586	87,005
Interest expense	56,472	23,967	36,898	106,199
Other income (expense), net	(77)	4,902	(20)	2,006
Earnings (loss) before reorganization items, income tax expense (benefit), extraordinary item and cumulative effect of a change in accounting principle	75,972	35,876	(10,332)	(17,188)
Reorganization items (Note 3)	—	—	145,688	(28,047)
Earnings (loss) before income tax expense (benefit), extraordinary item and cumulative effect of a change in accounting principle	75,972	35,876	135,356	(45,235)
Income tax expense (benefit) (Note 12)	30,604	14,550	(1,044)	3,657
Net earnings (loss) before extraordinary item and cumulative effect of a change in accounting principle	45,368	21,326	136,400	(48,892)
Extraordinary item — gain on extinguishment of debt (Note 4)	—	—	1,075,466	—
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes (Note 5)	—	—	(25,544)	—
Net earnings (loss)	$ 45,368	$ 21,326	$1,186,322	$ (48,892)
Net earnings (loss) per common share — primary and fully diluted (Note 2):				
Net earnings (loss) before extraordinary item and cumulative effect of a change in accounting principle	$ 0.88	$ 0.43	$ 3.52	$ (1.26)
Extraordinary item — gain on extinguishment of debt	—	—	27.72	—
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes	—	—	(0.66)	—
Net earnings (loss) per common share	$ 0.88	$ 0.43	$ 30.58	$ (1.26)

See accompanying notes to consolidated financial statements.

(Dollars in thousands)	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Cash Flows from Operating Activities:				
Net earnings (loss)	$ 45,368	$ 21,326	$ 1,186,322	$ (48,892)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
(Gain) loss on disposal of assets	—	(1,797)	684	3,900
Net adjustment in accounts for fair value	—	—	(158,698)	—
Gain on extinguishment of debt	—	—	(1,075,466)	—
Cumulative effect of a change in accounting for postretirement benefits other than pensions and income taxes	—	—	25,544	—
Depreciation of property, plant and equipment	29,190	10,764	12,105	29,306
Amortization of intangible assets	7,034	2,931	1,125	2,916
Noncash interest and other expense	3,089	339	866	3,555
(Increase) decrease in receivables	(15,096)	(8,753)	25,602	(19,708)
(Increase) decrease in income tax refund receivable	—	6,327	(1,317)	76,658
(Increase) decrease in inventories	(28,729)	5,639	1,731	16,905
(Increase) decrease in prepaid expenses and other assets	(3,964)	6,310	(6,259)	(5,035)
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	6,918	(24,580)	37,403	124,560
Increase (decrease) in income taxes payable	4,612	(152)	(485)	(1,174)
Increase (decrease) in net deferred tax liabilities	2,410	68	(1,560)	(6,014)
Increase (decrease) in other long-term liabilities	(1,237)	4,677	(681)	(6,325)
Increase in liabilities subject to compromise	—	—	—	27,653
Reorganization costs, net	—	—	—	7,253
	49,595	23,099	46,916	205,558
Net cash provided by discontinued operations	—	—	—	38,225
Net cash provided by operating activities	49,595	23,099	46,916	243,783
Cash Flows from Investing Activities:				
Proceeds from the disposal of assets	680	2,361	1,485	1,781
Additions to property, plant and equipment	(43,938)	(12,936)	(10,099)	(28,369)
Net cash used by investing activities	(43,258)	(10,575)	(8,614)	(26,588)
Cash Flows from Financing Activities:				
Net change in notes and loans payable	—	(577)	577	(951)
Payments of long-term debt	(29,148)	(27,034)	—	—
Proceeds from the issuance of common stock	42	—	—	—
Net cash provided (used) by financing activities	(29,106)	(27,611)	577	(951)
Cash Flows from Reorganization Activities:				
Payments of liabilities subject to compromise	—	—	(293,135)	—
Payments of deferred financing fees and expenses	—	—	(2,756)	—
Proceeds from cash held in trust	—	—	27,351	—
Net cash used by reorganization activities	—	—	(268,540)	—
Net increase (decrease) in cash and cash equivalents	(22,769)	(15,087)	(229,661)	216,244
Cash and cash equivalents at beginning of period	68,055	83,142	312,803	96,559
Cash and cash equivalents at end of period	$ 45,286	$ 68,055	$ 83,142	$312,803
Supplemental Disclosure:				
Cash payments (refunds) for income taxes, net	$ 23,786	$ 8,091	$ 1,360	$ (75,031)
Cash payments for interest, exclusive of reorganization activities	$ 54,508	$ 41,892	$ 208	$ 4,005

See accompanying notes to consolidated financial statements.

(Dollars in thousands except per share data)	PREFERRED STOCK SERIES D	PREFERRED STOCK SERIES E	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance February 23, 1991	$1,151	$ 3,321	$ 3,873	$ 199,079	$(1,342,635)	$(1,135,211)
Net loss					(48,892)	(48,892)
Conversion of preferred stock:						
Series D — 50 shares	(5)			5		—
Foreign currency translations					(2,419)	(2,419)
Balance February 29, 1992	1,146	3,321	3,873	199,084	(1,393,946)	(1,186,522)
Net earnings — Five months ended August 2, 1992					1,186,322	1,186,322
Conversion of preferred stock:						
Series D — 1,600 shares	(160)		15	145		—
Foreign currency translations — Five months ended August 2, 1992					200	200
Fresh-start adjustments:						
Cancellation of former equity and elimination of deficit	(986)	(3,321)	(3,888)	(199,229)	207,424	—
Issuance of new equity			50,000	225,400		275,400
Net earnings — Five months ended December 31, 1992					21,326	21,326
Foreign currency translations — Five months ended December 31, 1992					(3,612)	(3,612)
Balance December 31, 1992	—	—	50,000	225,400	17,714	293,114
Net earnings					45,368	45,368
Common stock activity:						
Stock option grants and exercises (Note 10)			4	988		992
Warrant exercises – 282 shares				3		3
Foreign currency translations					(920)	(920)
Balance December 31, 1993	$ —	$ —	$50,004	$ 226,391	$ 62,162	$ 338,557

See accompanying notes to consolidated financial statements.

1. *Reorganization and Emergence from Chapter 11*

INTERCO INCORPORATED (the "Company") is a major manufacturer of residential furniture and one of the leading manufacturers and retailers of footwear through two operating segments. The furniture segment consists of Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated and the footwear segment consists of The Florsheim Shoe Company and Converse Inc.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). On June 26, 1992, the Court approved and confirmed the Amended Joint Plan of Reorganization of the Company (the "Plan") and the order was docketed on June 30, 1992. The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The distribution record date for determining those creditors to whom distributions were made was June 30, 1992. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

2. *Significant Accounting Policies*

The Company follows generally accepted accounting principles to present fairly its consolidated financial position, results of operations, cash flows and shareholders' equity. The major accounting policies of the Company are set forth below.

Fresh-Start Reporting

As of August 2, 1992, in accordance with the AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements for the five months ended August 2, 1992. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for the year ended December 31, 1993 and five months ended December 31, 1992.

In adopting fresh-start reporting, the Company, with the assistance of its financial advisors, was required to determine its reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the Company immediately after its emergence from Chapter 11 status. The reorganization value of the Company was determined by consideration of several factors, including: the discounted residual value of the Company; market share, position and competition of each operating company; projected sales,

profitability growth and working capital requirements; and general economic considerations. Various valuation methods were relied upon, including: discounted cash flow, price/earnings ratios, comparable merger and acquisition activities and other applicable ratios and industry indices.

The adjustments to reflect the consummation of the Plan (including the gain on extinguishment of debt relating to pre-petition liabilities) and the adjustment to record assets and liabilities at their fair values (including the establishment of reorganization value in excess of amounts allocable to identifiable assets) have been reflected in the accompanying consolidated financial statements. Accordingly, a vertical black line is shown in the consolidated financial statements to separate post-emergence operations from those prior to August 3, 1992 since they have not been prepared on a comparable basis.

Fiscal Year

Effective December 31, 1992, the Company changed its fiscal year end to December 31. Prior to December 31, 1992, the Company's fiscal year ended on the last Saturday in February.

For purposes of this annual report, calendar 1993 refers to the 12 month period ended December 31, 1993, calendar 1992 refers to the two five month periods ended August 2, 1992 and December 31, 1992, and fiscal 1992 refers to the 12 month period ended February 29, 1992.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries, the majority of which are wholly owned. All material intercompany transactions are eliminated in consolidation. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53 week fiscal year. Calendar 1993 represented a 52 week fiscal year. As a result of adopting fresh-start reporting, calendar 1992 included a 22 week period ended August 2, 1992 and a 22 week period ended January 2, 1993 for the operating companies.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the Company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 11 years for machinery and equipment.

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $104,500. This intangible asset is being amortized on a straight-line basis over a 20 year period.

Trademarks and Trade Names

In connection with the adoption of fresh-start reporting, the Company recorded approximately $158,900 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40 year period.

Reorganization Items

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the Company during the Chapter 11 period.

Income Tax Expense (Benefit)

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109") as of August 2, 1992. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Extraordinary Item

The extraordinary item for the five months ended August 2, 1992 represents the gain, net of income taxes, resulting from the discharge of pre-petition liabilities in accordance with the Plan.

Cumulative Effect on Prior Years of a Change in Accounting for Postretirement Benefits other than Pensions and Income Taxes

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" ("SFAS No. 106") as of August 2, 1992. SFAS No. 106 requires the cost of these benefits be recognized in the financial statements over an employee's service period with the Company. Prior to August 2, 1992, the Company recognized these benefits on a cash payment basis. The adoption of SFAS No. 106 and SFAS No. 109 (described above under Income Tax Expense (Benefit)) represents a change in accounting principle.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Subsequent to the Company's emergence from Chapter 11, net earnings (loss) per common share is calculated based on the common stock and common stock equivalents issued in accordance with the Plan. The stock options and warrants issued pursuant to the Plan (Note 10) are considered common stock equivalents. Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for calendar 1993 were 51,375,000 and 51,397,000, respectively.

Prior to the Company's emergence from Chapter 11, common stock equivalents and the conversion of Series D Preferred Stock were not included in computations of net earnings (loss) per common share as they were not dilutive. As a result of the Chapter 11 filing, the Company stopped providing for preferred dividend requirements.

Reclassification

Certain calendar 1992 and fiscal 1992 amounts have been reclassified to conform to the calendar 1993 presentation.

3. *Reorganization Items*

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the Company during the Chapter 11 period. Reorganization items included in the consolidated statement of operations are summarized as follows:

	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Adjustments to fair value	$158,698	$ —
Fees for services rendered	(12,813)	(25,135)
Other reorganization costs and expenses	(3,991)	(7,865)
Debtor-in-possession financing fee amortization and expenses	(481)	(3,644)
Interest earned on accumulated cash resulting from Chapter 11 proceedings	4,275	8,597
	$145,688	$(28,047)

Adjustments to fair value reflect the net change to state assets and liabilities at fair value in accordance with the provisions of SOP 90-7.

4. *Extraordinary Item — Gain on Extinguishment of Debt*

The Plan resulted in the discharge of approximately $2,200,000 of pre-petition liabilities against the Company through the distribution to creditors of $293,100 in cash, $642,300 in various debt instruments, 50.0 million shares of common stock and 5.0 million warrants to purchase common stock. The book value of cash and securities distributed was approximately $1,100,000 less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item for the five months ended August 2, 1992.

5. *Cumulative Effect of Accounting Changes*

In connection with the adoption of fresh-start reporting, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of August 2, 1992. The cumulative effect of the change on retained earnings, prior to the adoption of fresh-start reporting at August 2, 1992, was approximately $23,600, net of approximately $13,200 in income taxes. The Company also adopted SFAS No. 109, "Accounting for Income Taxes", as of August 2, 1992. The cumulative effect of the change on retained earnings, prior to the adoption of fresh-start reporting at August 2, 1992, was a charge of approximately $1,900.

6. *Inventories*

Inventories are summarized as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
Retail merchandise	$ 67,690	$ 64,104
Finished products	164,958	146,568
Work-in-process	41,419	40,628
Raw materials	67,741	61,779
	$341,808	$313,079

7. *Short-Term Financing*

The Company maintains a $135,000 working capital facility with a group of banks. The working capital facility allows for both issuance of letters of credit and cash borrowings. Letter of credit issuances are limited to no more than $100,000; cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. Maximum availability under the facility is determined by the amount of eligible accounts receivable and inventory at each month end (referred to in aggregate as a "borrowing base"). As of December 31, 1993, the Company's borrowing base pertaining to the facility totaled $266,251.

The working capital facility is secured by a first priority lien on and security interest in substantially all property of the Company. In 1992, the Company paid an origination fee of 2.0% of the commitment of $135,000 to the banks. The Company is required to pay an annual unused line (commitment) fee of ½ of 1% on the average daily unused portion of the commitment of the banks, payable quarterly in arrears, until such commitments are terminated. The Company also pays an annual collateral management fee of $250.

The outstanding cash borrowings under the revolving credit loan facility bear interest at prime rate plus 1.75% or at an adjusted Eurodollar rate plus 2.75% depending upon which type of loan the Company executes. At December 31, 1993, there were no cash borrowings outstanding under the revolving credit loan facility. Average cash borrowings outstanding during calendar 1993 were $9,583 with a weighted average interest rate thereon of 6.1%. The maximum cash borrowings outstanding at any month end during calendar 1993 were $35,000. For the five months ended December 31, 1992, no cash borrowings were made under the facility.

Under the letter of credit facility, a fee of 1.5% per annum in the case of commercial (trade) letters of credit and 2.75% per annum in the case of stand-by letters of credit is assessed for the account of the lenders ratably. A further fee of ½ of 1% is assessed on stand-by letters of credit representing a facing fee. A customary administrative charge for issuance of letters of credit is also payable to the relevant issuing banks. Letters of credit fees are payable quarterly in arrears. At December 31, 1993, there were $65,161 in letters of credit outstanding under the working capital facility.

On January 31, 1994, the Company and its bank group executed an amendment to the working capital facility which increases the maximum availability to $140,000 and extends the term to February 3, 1997. The amendment also reduces the cash borrowing interest rate to prime rate plus 1.25% or adjusted Eurodollar rate plus 2.0%, and the letter of credit fee (both commercial and stand-by) to 1.0% per annum. Certain administrative charges and processing fees are also reduced or eliminated. The Company paid the bank group a fee of 0.50% of the $140,000 commitment for the amendment.

With the Company's emergence from bankruptcy effective with the beginning of business on August 3, 1992, the debtor-in-possession financing facility (the "DIP Financing Facility") previously in effect was terminated. No cash borrowings occurred while the DIP Financing Facility was active. Letters of credit issued under the DIP Financing Facility that were outstanding on its termination date were indemnified by issuance of letters of credit under the Company's working capital facility.

8. *Long-Term Debt*

Long-term debt consisted of the following:

	DECEMBER 31, 1993	DECEMBER 31, 1992
10.0% secured notes due 2001	$104,734	$109,199
9.0% secured notes due 2004	149,274	155,636
8.5% secured notes due 1997	9,334	11,208
Secured term loan	289,881	302,238
ILGWU fund note	16,150	19,150
Industrial revenue bonds	12,768	13,193
Federal tax obligation	3,968	4,633
	586,109	615,257
Less current maturities	(9,305)	(29,289)
	$576,804	$585,968

The common stock of the Company's principal subsidiaries, substantially all of the Company's cash, working capital and property, plant and equipment have been pledged or mortgaged as security for various components of the long-term debt (on a shared basis) and the working capital facility. The liens securing the long-term debt are subordinate to the liens on such property securing the working capital facility. In addition, the debt instruments pursuant to which the long-term debt and working capital facility were issued contain a number of restrictive covenants and events of default, including covenants limiting capital expenditures and incurrence of debt, and require the Company to achieve certain financial ratios, some of which become more restrictive over time. The Company was in compliance with all covenants applicable at December 31, 1993.

Under certain circumstances, the Company will be required to apply to the repayment or redemption of the Secured Notes, the Secured Term Loan and the ILGWU Fund Note, a portion of the net proceeds realized from (i) the sale, conveyance, or other disposition of collateral securing such debt or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its common stock.

The following discussion summarizes certain provisions of the long-term debt.

10.0% Secured Notes Due 2001

The 10.0% Notes are secured obligations of the Company which mature on June 1, 2001 and bear interest at the rate per annum of 10.0%. Interest is payable semi-annually, on December 1 and June 1.

For fiscal years ending prior to June 1, 1995, excess cash flow (as specifically defined in the indenture) is applied, on a pro rata basis with the 9.0% Notes and Secured Term Loan, to the redemption of the 10.0% Notes with such payments occurring on or before the April 1 succeeding each fiscal year end. Mandatory sinking fund payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 1996	$ 8,151	June 1, 1999	$14,134
June 1, 1997	14,134	June 1, 2000	14,134
June 1, 1998	14,134	June 1, 2001	Remaining balance

9.0% Secured Notes Due 2004

The 9.0% Notes are secured obligations of the Company which mature on June 1, 2004 and bear interest at the rate per annum of 9.0%. Interest is payable semi-annually, on December 1 and June 1.

Excess cash flow (as specifically defined in the indenture) is applied, on a pro rata basis with the 10.0% Notes (until June 1, 1995) and the Secured Term Loan, to the redemption of the 9.0% Notes with such payments occurring on or before the April 1 succeeding each fiscal year end. Mandatory sinking fund payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 2000	$4,502	December 1, 2002	$5,445
June 1, 2001	4,805	June 1, 2003	5,445
December 1, 2001	5,285	December 1, 2003	5,445
June 1, 2002	5,285	June 1, 2004	Remaining balance

8.5% Secured Notes Due 1997

The 8.5% Notes are secured obligations of the Company which mature on June 1, 1997 and bear interest at the rate per annum of 8.5%. Interest is payable semi-annually, on December 1 and June 1. Mandatory sinking fund payments began on June 1, 1993, and continue on each subsequent June 1, ending on June 1, 1997. Each principal payment will equal 20% of the original principal amount, less any optional prepayments made by the Company prior to a mandatory payment.

Secured Term Loan

The Secured Term Loan is a secured obligation of the Company which matures on June 1, 2004. From March 1, 1992 to June 1, 1997, the Secured Term Loan will bear interest at the rate per annum of 9.0%. Commencing June 1, 1997, the interest rate converts to LIBOR plus 2.5%, adjusted annually on each June 1; however, such annual interest rate adjustment shall be limited as to not allow pro forma consolidated interest coverage to be less than 2.5 to 1. The interest rate in no case shall fall below 9.0%. Interest is payable quarterly, on September 1, December 1, March 1 and June 1.

Excess cash flow (as specifically defined in the Secured Term Loan Agreement) is applied, on a pro rata basis with the 10.0% Notes (until June 1, 1995) and the 9.0% Notes, to the prepayment of the Secured Term Loan with such payments occurring on or before the April 1 succeeding each fiscal year end. Scheduled amortization payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 2000	$ 8,736	December 1, 2002	$10,574
June 1, 2001	9,329	June 1, 2003	10,574
December 1, 2001	10,264	December 1, 2003	10,574
June 1, 2002	10,264	June 1, 2004	Remaining balance

ILGWU Fund Note

The ILGWU Fund Note is a secured obligation of the Company which matures July 1, 1998 and bears interest at the rate per annum of 6.5%. Interest is payable quarterly, on October 1, January 1, April 1 and July 1. Quarterly principal payments of $750 commenced on October 1, 1992 and continue through July 1, 1997. Quarterly principal payments of $1,225 commence on October 1, 1997 and continue through April 1, 1998, with the remaining balance due on July 1, 1998.

Industrial Revenue Bonds

The Company has obligations under several Industrial Revenue Bonds which were reinstated upon emergence from Chapter 11 status. These obligations mature in varying amounts through 2004 and bear interest at rates per annum ranging from 6.0% to 8.75%.

Federal Tax Obligation

In settlement of certain Federal tax obligations, the Company entered into an unsecured obligation with the Internal Revenue Service which matures on August 3, 1998, and bears interest at 8.0%. Interest and principal are paid quarterly based upon a predetermined amortization schedule.

Other Information

On October 27, 1992 and December 1, 1992, the Company made optional prepayments on the 10.0%, 9.0% and 8.5% Secured Notes and the Secured Term Loan totaling $15,104 in face value. These optional prepayments were made on a pro rata basis among the debt instruments and were applied to the forward order of maturity of each such instrument in accordance with the provisions of each indenture and credit agreement. The optional prepayments of the 10.0% and 9.0% Secured Notes were executed by purchases made in the open market. These purchases were made at a discount

to face value resulting in a gain of $444 which has been included in other income (expense), net.

On December 10, 1992, the Company made an advance payment of its excess cash flow requirement for calendar 1992 pertaining to the 10.0% and 9.0% Secured Notes and the Secured Term Loan totaling $10,127 in face value. This advance payment was made on a pro rata basis among the debt instruments and was applied on a pro rata order of maturity basis for each such instrument in accordance with the provisions of each indenture and credit agreement. The advance payment of the 10.0% and 9.0% Secured Notes was executed by purchases made in the open market. These purchases were made at a discount to face value resulting in a gain of $279 which has been included in other income (expense), net.

Maturities of long-term debt are $9,305, $7,258, $15,468, $21,992 and $19,580 for calendar years 1994 through 1998, respectively. Current maturities of long-term debt at December 31, 1993 include $373 representing the calendar 1993 excess cash flow requirement.

9. *Preferred Stock*

The Company's restated certificate of incorporation includes authorization to issue up to 10.0 million shares of no par value, preferred stock. As of December 31, 1993, no preferred stock has been issued.

In accordance with the Plan, all shares of the Company's preferred stock (Series D and E) outstanding prior to the Plan's effective date were cancelled.

10. *Common Stock*

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a $1.00 stated value. As of December 31, 1993, 50,004,282 shares of common stock had been issued and were outstanding.

The holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferential rights that may be applicable to any preferred stock (none of which has been issued as of December 31, 1993), holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. However, it is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends. All of the outstanding shares of common stock are fully paid and nonassessable.

Shares of common stock were reserved for the following purposes at December 31, 1993:

	NUMBER OF SHARES
Common stock options:	
Granted	2,915,000
Available for grant	581,000
Common stock warrants	4,999,311
	8,495,311

On May 5, 1993, shareholders approved the 1992 Stock Option Plan including an amendment thereto which increased the number of common shares reserved for issuance from 2.5 million shares to 3.5 million shares. Under the Company's 1992 Stock Option Plan, certain key employees may be granted nonqualified options, incentive options or combinations thereof. Nonqualified and incentive options may be granted to expire up to ten years after the date of grant. Options granted become exercisable at varying dates depending upon the achievement of certain performance targets and/or the passage of certain time periods.

Shareholders also approved an amendment to the 1992 Stock Option Plan authorizing grants of options to purchase common shares at less than fair market value on the date of grant. During calendar 1993, an option grant of 250 thousand common shares was made by the Company at less than market value resulting in a credit to paid-in capital and a charge to compensation expense of approximately $1.0 million.

Changes in options granted are summarized as follows:

	YEAR ENDED DECEMBER 31, 1993		FIVE MONTHS ENDED DECEMBER 31, 1992	
	SHARES	AVERAGE PRICE	SHARES	AVERAGE PRICE
Beginning of period	2,500,000	$ 7.00	—	$ —
Granted	461,000	9.58	2,500,000	7.00
Exercised	(4,000)	7.00	—	—
Cancelled	(42,000)	7.92	—	—
End of period	2,915,000	$ 7.39	2,500,000	$ 7.00
Exercisable at end of period	586,750		—	

The Company issued, upon emergence from Chapter 11 status, approximately 5.0 million warrants to purchase common stock. Each warrant entitles the holder thereof to purchase one share of common stock at $12.00 per share; provided however, that in the event of certain mergers, acquisitions, liquidations and tender offers involving the Company, the purchase price and number of shares of common stock shall be subject to adjustment in accordance with the warrant agreement. The warrants were issued in two series; Series 1 warrants include a five year call protection, whereas Series 2 warrants do not include such a feature. All other terms and conditions of the two series of warrants are identical. The warrants trade on the over-the-counter market.

In accordance with the Plan, all shares of the Company's common stock outstanding prior to the Plan's effective date were cancelled, as were all option shares outstanding, shares available for grant, existing stock option plans and common share purchase rights.

11. *Discontinued Operations*

In fiscal 1992, the Company completed the controlled liquidations of the assets of Megastar Apparel Group and Abe Schrader Corporation, except for the disposal of certain real estate which continues to be offered for sale. Those asset liquidations, along with certain miscellaneous real estate sales, generated approximately $34,000 in cash.

All estimated costs and expenses (including anticipated operating losses through the final liquidation date) are accrued. Management anticipates the net gains to be realized on the disposal of real estate held for sale should at least equal the future carrying costs associated with the real estate.

12. *Income Taxes*

Income tax expense (benefit) was comprised of the following:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Current:				
Federal	$22,693	$ 9,972	$(1,373)	$(4,708)
State and local	4,161	3,213	1,760	3,631
Foreign	1,340	1,297	129	1,753
	28,194	14,482	516	676
Deferred	2,410	68	(1,560)	2,981
	$30,604	$14,550	$(1,044)	$ 3,657

The following table reconciles the differences between the Federal corporate statutory rate and the Company's effective income tax rate:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Federal corporate statutory rate	35.0%	34.0%	34.0%	34.0%
State and local income taxes, net of Federal tax benefit	3.6	3.3	0.8	(5.3)
Foreign taxes, including foreign currency translation effects	0.8	4.1	0.4	(16.3)
Reorganization items	—	—	(37.3)	(19.2)
Other	0.9	(0.8)	1.3	(1.3)
Effective income tax rate	40.3%	40.6%	(0.8)%	(8.1)%

The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
Deferred tax assets:		
Employee postretirement benefits other than pensions	$ 13,741	$ 13,152
Interest expense	8,199	8,751
Expense accruals	8,019	9,583
Valuation reserves	6,812	5,473
Inventory costs capitalized	2,471	2,125
Other	517	944
Total gross deferred tax assets	39,759	40,028
Valuation allowance	—	—
Total net deferred tax assets	39,759	40,028
Deferred tax liabilities:		
Fair value adjustments	(62,367)	(62,519)
Depreciation	(7,778)	(7,964)
Employee pension plans	(5,608)	(4,015)
Other	(8,029)	(7,143)
Total deferred tax liabilities	(83,782)	(81,641)
Net deferred tax liabilities	$(44,023)	$(41,613)

The net deferred tax liabilities are included in the consolidated balance sheet as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
Prepaid expenses and other current assets	$ 22,039	$ 22,895
Other long-term liabilities	(66,062)	(64,508)
	$(44,023)	$(41,613)

The Federal income tax returns of the Company and its major subsidiaries have been examined by the Internal Revenue Service ("IRS") through February 23, 1991. For tax periods beginning January 1, 1982 and ending February 23, 1991, the Company settled claims by the IRS by entering into an unsecured obligation of approximately $4,800 (See Note 8).

13. *Employee Benefits*

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for calendar 1993, calendar 1992 (ten months) and fiscal 1992 was $5,174, $3,410 and $3,249, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. Funding decisions made in calendar 1993 contributed towards the deferred or prepaid pension cost. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

	DECEMBER 31, 1993	DECEMBER 31, 1992
Actuarial present value of benefit obligations:		
Vested benefit obligation	$299,309	$270,852
Accumulated benefit obligation	$302,823	$277,076
Projected benefit obligation	$331,058	$301,711
Plan assets at fair value	358,812	343,662
Projected benefit obligation less than plan assets	27,754	41,951
Unrecognized net (gain) loss	944	(8,340)
Unrecognized prior service cost	7,609	—
Prepaid pension cost	$ 36,307	$ 33,611

Net periodic pension cost for calendar 1993, calendar 1992 and fiscal 1992 includes the following components:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Service cost-benefits earned during the period	$ 6,391	$ 2,610	$ 2,668	$ 5,146
Interest cost on the projected benefit obligation	22,631	9,654	9,553	22,070
Actual return on plan assets	(32,054)	(19,982)	(1,388)	(51,287)
Net amortization and deferral	3,459	8,340	(10,757)	23,995
Net periodic pension cost	$ 427	$ 622	$ 76	$ (76)

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits generally are based upon service, pay, or both, with employees generally becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 8.0%-9.5% in calendar 1993 and calendar 1992, and 8.0%-8.5% in fiscal 1992. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 7.25%, 7.75% and 7.75% and a long-term rate of compensation increase of 4.5%, 5.0% and 5.5% for calendar 1993, calendar 1992 and fiscal 1992, respectively.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to various defined contribution, union-negotiated and foreign plans. The cost of these plans is included in the total cost for all plans reflected above.

The Company also sponsors two savings plans and an Employee Stock Ownership Plan ("ESOP"). The total cost of these plans for calendar 1993 and 1992 and fiscal 1992 was $685, $453 and $508, respectively. On November 9, 1993, the Board of Directors approved the termination of the ESOP. At December 31, 1993, the ESOP held 4,463 shares of INTERCO INCORPORATED common stock and 1,772 INTERCO INCORPORATED Series 1 Warrants for the benefit of the ESOP participants.

In addition to pension and other supplemental benefits, certain retired employees are currently provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to employees who retire after a certain age with specified years of service if they agree to contribute a portion of the cost. The Company has reserved the right to modify or terminate these benefits. Health care and life insurance benefits are provided to both retired and active employees through medical benefit trusts, third-party administrators and insurance companies.

The following table sets forth the combined financial status of postretirement benefits other than pensions:

	DECEMBER 31, 1993	DECEMBER 31, 1992
Accumulated postretirement benefit obligation:		
Retirees	$20,496	$20,118
Fully eligible active plan participants	3,597	7,052
Other active plan participants	5,871	10,359
Total	29,964	37,529
Plan assets at fair value	3,952	3,800
Accumulated postretirement benefit obligation in excess of plan assets	26,012	33,729
Unrecognized net gain	6,014	3,745
Unrecognized prior service gain	5,098	—
Accrued postretirement benefit obligation	$37,124	$37,474

Net periodic postretirement benefit costs include the following components:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992
Service cost — benefits earned during the period	$ 753	$ 480
Interest cost on the postretirement benefit obligation	2,283	1,165
Actual return on plan assets	(409)	—
Net amortization and deferral	(395)	—
Net periodic postretirement benefit cost	$2,232	$1,645

For measurement purposes, a 17.0% and 18.0% annual rate of increase in the cost of health care benefits for pre-age 65 retirees and 13.0% and 14.0% for post-age 65 retirees was assumed for calendar 1993 and 1992, respectively. For calendar 1993 and calendar 1992, the rates are assumed to decrease gradually to 8.0% in the year 2002 for pre-age 65 retirees and to 7.0% in 1999 for post-age 65 retirees and remain at those levels thereafter. The health care cost trend rate assumption has an effect on amounts reported. For example, increasing the health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by approximately $1,522 and the net periodic cost by $308 for the year.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.75% for calendar 1993 and 1992, respectively. The expected long-term rate of return on plan assets was 8.0%.

14. *Lease Commitments*

Substantially all of the Company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2005. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases was as follows:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Basic rentals	$27,817	$11,399	$12,085	$31,861
Contingent rentals	8,212	4,113	4,339	8,367
	36,029	15,512	16,424	40,228
Less: sublease rentals	479	386	387	479
	$35,550	$15,126	$16,037	$39,749

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $1,264 at December 31, 1993, aggregate $105,586. Annual payments under operating leases are $24,407, $20,653, $17,835, $13,201 and $9,199 for 1994 through 1998, respectively.

15. *Fair Value of Financial Instruments*

Cash and Cash Equivalents, Receivables, Accounts Payable and Accrued Expenses

The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Long-Term Debt

The fair values of the following long-term debt instruments are based on quoted market prices as determined through discussions with various market participants, where available.

	DECEMBER 31, 1993		DECEMBER 31, 1992	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
10.0% secured notes due 2001	$104,734	$106,043	$109,199	$107,015
9.0% secured notes due 2004	149,274	148,528	155,636	141,629
8.5% secured notes due 1997	9,334	9,334	11,208	9,863
Secured term loan	289,881	289,881	302,238	302,238

The ILGWU Fund Note, Industrial Revenue Bonds and Federal Tax Obligation are considered special purpose financing for settlement of certain claims and as an incentive to acquire specific real estate. Accordingly, the Company believes the carrying amounts approximate fair value given the circumstances under which such financing was acquired.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

16. *Litigation*

Notwithstanding the confirmation and effectiveness of the Plan, the Court continues to have jurisdiction, among other things, to resolve disputed pre-petition claims against the Company, to resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to the Plan, and to resolve other matters that may arise in connection with or relate to the Plan. Pursuant to the Plan, the Company, on the effective date, paid into a Disputed Claims Trust the face amount of certain claims still to be resolved. Since those unresolved claims were funded at their face amounts, the Company has no further financial exposure with respect to those claims.

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

17. *Business Segment Information*

The Company's two business segments are furniture and footwear. Information, on an unaudited basis, relating to the operating companies and their products, which constitute each segment, is included on pages six through fifteen of this report. Summarized financial information by business segment is as follows:

	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992
Net sales:				
Furniture segment	$ 980,532	$394,873	$356,705	$ 819,359
Footwear segment	676,282	267,401	246,868	652,386
Total	$1,656,814	$662,274	$603,573	$1,471,745
Earnings before interest expense, income taxes, depreciation and amortization and other income (expense), net:				
Furniture segment	$ 121,685	$ 49,263	$ 34,135	$ 88,362
Footwear segment	61,176	23,881	11,764	41,715
	182,861	73,144	45,899	130,077
Corporate administration	(9,728)	(3,638)	(3,770)	(8,542)
Miscellaneous expenses	(4,388)	(870)	(2,313)	(2,308)
	168,745	68,636	39,816	119,227
Depreciation and amortization:				
Furniture segment	(35,878)	(13,964)	(8,027)	(18,363)
Footwear segment	(1,769)	(325)	(5,120)	(13,633)
Corporate administration	1,423	594	(83)	(226)
Earnings from operations:				
Furniture segment	85,807	35,299	26,108	69,999
Footwear segment	59,407	23,556	6,644	28,082
Corporate administration and miscellaneous expenses	(12,693)	(3,914)	(6,166)	(11,076)
	132,521	54,941	26,586	87,005
Interest expense	(56,472)	(23,967)	(36,898)	(106,199)
Other income (expense), net and reorganization items	(77)	4,902	145,668	(26,041)
Earnings (loss) before income tax expense (benefit), extraordinary item and cumulative effect of a change in accounting principle	$ 75,972	$ 35,876	$135,356	$ (45,235)
Capital expenditures:				
Furniture segment	$ 30,066	$ 8,840	$ 7,008	$ 20,075
Footwear segment	13,741	4,087	3,058	8,269

	DECEMBER 31, 1993	DECEMBER 31, 1992
Identifiable assets:		
Furniture segment	$ 819,415	$ 800,176
Footwear segment	347,509	296,267
Corporate administration	38,755	81,094
	$1,205,679	$1,177,537

Substantially all of the Company's sales are made to unaffiliated customers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated sales and no particular concentration of credit risk in one economic section. Foreign operations are not material.

As discussed in Note 2, the Company adjusted its assets to fair value in connection with the adoption of fresh-start reporting. These adjustments were impacted by the requirement to state each operating company's total assets at its reorganization value. As a result, the depreciation and amortization expense after August 2, 1992 for each segment is not comparable to prior periods.

Identifiable assets are those used by each segment in its operations. Corporate administration assets consist primarily of cash and cash equivalents, and miscellaneous real estate held for sale.

18. *Quarterly Financial Information (Unaudited)*

Following is a summary of unaudited quarterly information:

	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Year ended December 31, 1993:				
Net sales	$411,747	$423,852	$ 404,352	$416,863
Gross profit	136,660	136,261	131,432	137,594
Net earnings	$ 12,875	$ 9,194	$ 8,901	$ 14,398
Net earnings per common share	$ 0.25	$ 0.18	$ 0.17	$ 0.28
Common stock price range (High-Low)	$ 15⅜-13	$ 14⅝-12	$15¾-12⅜	$ 14⅞-9⅜

	Fourth Quarter	Third Quarter: September 30, 1992 (two months)	Third Quarter: August 2, 1992 (one month)	Second Quarter	First Quarter
Year ended December 31, 1992:					
Net sales	$398,090	$264,184	$ 125,476	$355,398	$390,875
Gross profit	133,534	86,094	35,102	114,600	125,411
Net earnings (loss) before extraordinary item and cumulative effect of accounting change	13,214	8,112	145,978	(7,696)	(8,864)
Extraordinary item	—	—	1,075,466	—	—
Cumulative effect of accounting change	—	—	(25,544)	—	—
Net earnings (loss)	$ 13,214	$ 8,112	$1,195,900	$ (7,696)	$ (8,864)
Net earnings (loss) per common share:					
Net earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 0.27	$ 0.16	$ 3.77	$ (0.20)	$ (0.23)
Extraordinary item	—	—	27.72	—	—
Cumulative effect of accounting change	—	—	(0.66)	—	—
Net earnings (loss)	$ 0.27	$ 0.16	$ 30.83	$ (0.20)	$ (0.23)
Common stock price range (High-Low)	$ 9 3/8-6 3/4	$ 8 5/8-6 7/8	$ 1/8-1/16	$ 5/32-3/64	$ 1-1/16

The Company has not paid dividends on its common stock during the two years ended December 31, 1993. The closing market price of the Company's common stock on December 31, 1993 was $13.125 per share.

As a result of adopting fresh-start reporting, the Company's third quarter in calendar 1992 includes two periods — July 1, 1992 through August 2, 1992, and August 3, 1992 through September 30, 1992. Operating results after August 2, 1992 are presented on a different cost basis and reflect the adoption of SFAS No. 106 and No. 109. The quarterly results of operations for the year ended December 31, 1992 have been restated to a calendar year basis.

The Board of Directors
and Shareholders
INTERCO INCORPORATED:

We have audited the accompanying consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of December 31, 1993 and December 31, 1992, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 1993, five months ended December 31, 1992, five months ended August 2, 1992, and year ended February 29, 1992. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTERCO INCORPORATED and subsidiaries at December 31, 1993 and December 31, 1992, and the results of their operations and their cash flows for the year ended December 31, 1993, five months ended December 31, 1992, five months ended August 2, 1992, and year ended February 29, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective August 2, 1992, INTERCO INCORPORATED was required to adopt "fresh-start" reporting principles in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." As a result, the financial statements for the period subsequent to the adoption of fresh-start reporting are presented on a different cost basis than that for prior periods and, therefore, are not comparable.

As discussed in Notes 2 and 5 to the consolidated financial statements, the company changed its method of accounting for postretirement benefits and income taxes in calendar year 1992.

KPMG Peat Marwick

St. Louis, Missouri
February 8, 1994

(Dollars in thousands except per share data)	YEAR ENDED DEC. 31, 1993	FIVE MONTHS ENDED[1] DEC. 31, 1992	AUG. 2, 1992	FISCAL YEARS ENDED FEB. 29, 1992	FEB. 23, 1991	FEB. 24, 1990
Summary of Operations:						
Net sales	$1,656,814	$ 662,274	$ 603,573	$ 1,471,745	$ 1,439,246	$ 1,656,079
Cost of sales	1,114,867	442,646	415,030	998,354	992,209	1,102,572
Interest expense	56,472	23,967	36,898	106,199	259,495	303,123
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of accounting change	75,972	35,876	135,356	(45,235)	(215,482)	(63,580)
Income tax expense (benefit)	30,604	14,550	(1,044)	3,657	(64,108)	(9,752)
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	45,368	21,326	136,400	(48,892)	(151,374)	(53,828)
Discontinued operations	—	—	—	—	(24,962)	86,082
Extraordinary item	—	—	1,075,466	—	—	—
Cumulative effect of accounting change	—	—	(25,544)	—	—	—
Net earnings (loss) applicable to common stock	$ 45,368	$ 21,326	$1,186,322	$ (48,892)[2]	$ (272,097)	$ (51,584)
Per share of common stock — primary and fully diluted:						
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.88	$ 0.43	$ 3.52	$ (1.26)[2]	$ (6.38)	$ (3.57)
Discontinued operations	—	—	—	—	(0.65)	2.23
Extraordinary item	—	—	27.72	—	—	—
Cumulative effect of accounting change	—	—	(0.66)	—	—	—
Net earnings (loss) applicable to common stock	$ 0.88	$ 0.43	$ 30.58	$ (1.26)[2]	$ (7.03)	$ (1.34)
Weighted average common and common equivalent shares outstanding — fully diluted (in thousands)	51,397	50,000	38,796	38,731	38,720	38,585
Cash dividends paid:						
Common stock	$ —	$ —	$ —	$ —	$ —	$ —
Preferred stock	$ —	$ —	$ —	$ —	$ —	$ —
Other Information:						
Working capital	$ 533,915	$ 503,875	$ 518,983	$ 708,706[4]	$ 719,738[4]	$(1,242,776)[5]
Property, plant and equipment, net	216,301	202,285	203,904[3]	165,633	172,112	186,919
Capital expenditures	43,938	12,936	10,099	28,369	19,612	29,663
Total assets	1,205,679	1,177,537	1,202,316	1,250,083	1,145,562	1,161,230
Long-term debt	576,804	585,968	635,721	—[4]	—[4]	3,176[5]
Liabilities subject to compromise	—	—	—	2,165,311[4]	2,137,658[4]	—
Shareholders' equity (deficit)	$ 338,557	$ 293,114	$ 275,400	$(1,186,522)	$(1,135,211)	$ (958,958)

[1] As discussed in Note 2 to the Consolidated Financial Statements, the Company changed its fiscal year to end on December 31. As also discussed in Note 2, the Company's adoption of fresh-start reporting required reporting calendar 1992 results in two 22 week periods.

[2] As discussed in Note 2 to the Consolidated Financial Statements, the Company stopped providing for preferred dividend requirements in fiscal 1992.

[3] In connection with the adoption of fresh-start reporting, property, plant and equipment was adjusted to fair value resulting in an increase of approximately $42,400 as of August 2, 1992.

[4] $1,055,132 and $1,007,882 of long-term debt are included in liabilities subject to compromise as of February 29, 1992 and February 23, 1991, respectively.

[5] $600,536 of long-term debt was reclassified as current liabilities as of February 24, 1990.

Board of Directors

Leon D. Black
Officer of Apollo Capital Management, Inc.

Craig M. Cogut 3
Officer of Apollo Capital Management, Inc.

Robert H. Falk
Officer of Apollo Capital Management, Inc.

Michael S. Gross 1*, 3
Officer of Apollo Capital Management, Inc.

John J. Hannan 1
Officer of Apollo Capital Management, Inc.

Bruce A. Karsh 3
Managing Director of Trust Company of the West

John H. Kissick 3
Officer of Lion Capital Management, Inc.

Donald E. Lasater 2, 3*
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman 2*
Retired Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd 1
Chairman of the Board, President and Chief Executive Officer of the Company

Matthew J. Morahan 2
Managing Director of PaineWebber Incorporated

Eric B. Siegel
Officer of Apollo Capital Management, Inc.

Basil Vasiliou
Chairman of the Board of Vasiliou & Co., Inc.

Committees of the Board

1. Executive Committee
2. Audit Committee
3. Executive Compensation and Stock Option Committee

(* indicates Committee Chairman)

Corporate Officers

Richard B. Loynd
Chairman of the Board, President and Chief Executive Officer

Eugene F. Smith
Executive Vice-President and Chief Financial Officer

Ronald J. Mueller
Vice-President

David P. Howard
Vice-President and Controller

Duane A. Patterson
Vice-President and Secretary

Robert T. Hensley, Jr.
Treasurer

Lynn Chipperfield
General Counsel and Assistant Secretary

James K. Pendleton
Associate General Counsel and Assistant Secretary

Presidents of Operating Companies

Brent B. Kincaid
Broyhill Furniture Industries, Inc.

K. Scott Tyler, Jr.
The Lane Company, Incorporated

Ronald J. Mueller
The Florsheim Shoe Company

Gilbert Ford
Converse Inc.

Transfer Agents and Registrars for Common Stock

Society National Bank
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

First Chicago Trust Company of New York
P.O. Box 2534, Suite 4692
Jersey City, New Jersey 07303
(201) 222-4114

Exchange Listing

Common shares are listed on the New York Stock Exchange (trading symbol: ISS).

Trustees, Registrars and Paying Agents for Secured Notes

10.0% Secured Notes due 2001
8.5% Secured Notes due 1997

Shawmut Bank Connecticut, N.A.
777 Main Street, MSN 238
Hartford, Connecticut 06115
(203) 728-2000

9.0% Secured Notes due 2004

BankAmerica National Trust Company
2 Rector Street
New York, New York 10006
(212) 978-5022

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Wednesday, May 4, 1994, at the Rihga Royal Hotel, 151 West 54th Street, New York, New York. Notice of the meeting and a proxy statement will be sent to shareholders in a separate mailing.

Form 10-K Annual Report

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Treasurer of INTERCO at the Corporate Offices.

Independent Auditors

KPMG Peat Marwick
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

INTERCO INCORPORATED

St. Louis, Missouri